



CALIFORNIA HEALTH ADVOCATES

Long Term Care: An Overview of Long Term Care Insurance

Long Term Care Insurance (LTCI) is a type of insurance that only pays for long term care. Some of these policies only pay for care in institutional settings such as a nursing home or an Assisted Living facility; some only pay for home care; while other, more comprehensive policies, pay for care in a nursing home, Assisted Living facility, at home, or in community settings like Adult Day Care. While some life insurance policies and annuities also contain benefits for long term care, those products are not covered in this Fact Sheet. If you are considering one of those complicated financial planning products, you will need to see a trusted financial advisor or an Elder Law Attorney.

If you are considering buying LTCI, you will need to do some research to find the best set of benefits for your particular circumstances, and the best company for those benefits. You will also need to consult your accountant or tax advisor to understand how any tax advantages will affect you. Counselors from the California Health Insurance Counseling and Advocacy Program (HICAP) can help you: sort through some of these issues; understand how these benefits work; compare benefits and features of several policies; or compare policies from more than one company. To make an appointment for HICAP counseling, call 1-800-434-0222. However, only you can make the decision about which policy and package of benefits is best for you.

Individual or Group Coverage

You can buy LTCI as an individual the same way you buy any other insurance, or you can buy it as a member of a group or faith based organization or as an employee or family member of an employee. For instance, some people may be eligible to buy coverage through the California Public Employees Retirement System (CALPERS), or the Federal Employees Long Term Care Program (FLTCP) because of their, or a family member's,

public or military employment. Neither of these employer based systems pays any part of the premium, but each sponsors its own LTCI program. Some private employers also sponsor this type of insurance, as do some association and faith based groups. If you buy an individual LTCI policy in California, you can be certain it meets the current requirements of state law and exceeds those of most other states. However, benefits purchased through a group may not meet all of those requirements. You need to ask about that before you buy.

For more information about CALPERS, call 1-800-982-1775 or visit their website at www.calpers.ca.gov/. For more information about FLTCP, call 1-800-582-3337 or visit their website at www.ltcfeds.com.

Types of LTCI Policies

Policies in California are labeled according to where benefits will be paid. For instance, a Home Care Only policy will only pay for care in your home and must include benefits for Home Health, Adult Day Health Care, Hospice, Respite Care, Personal Care and Homemaker Services while a Nursing Home and Residential Care Facility Only policy will only pay for care in a nursing home and in a place that is licensed as a Residential Care Facility for the Elderly (RCFE) which is often called an Assisted Living facility. A Comprehensive policy will pay benefits in a nursing home, Assisted Living facility, and for home care and community care like Adult Day Care. Policies that are also labeled "Partnership" policies will allow you to keep more of your assets if you qualify for Medi-Cal later on.

The Partnership

The California Partnership for Long Term Care is a program of the California Department of Health Services (DHS), and is an innovative partnership

between consumers, the State of California and some private insurance companies, plus the California Public Employees Retirement System (CALPERS). These Partnership policies can be purchased as either Comprehensive or as Nursing Home and Residential Care Facility-only policies, and must meet certain requirements set by the state. Each Partnership policy is tax qualified (TQ) and includes an automatic 5% compounded inflation protection and a unique state guaranteed asset protection feature that allows you to retain a certain amount of your assets if you need to apply for Medi-Cal later on. Your protected assets will not be counted on your application for Medi-Cal and can be left to your heirs as part of your estate. Only agents who have taken additional specialized training can sell you one of these policies.

For more information about the Partnership, call 1-800-227-3445 or visit their website at <http://www.dhs.ca.gov/cpltc>.

Tax Qualified (TQ) and Non-Tax Qualified (NTQ)

TQ policies allow the taxpayer to deduct some, or all, of their premium from their federal and state income taxes as a medical expense. The amount of premium that can be deducted is based on your age combined with your medical expenses that exceed 7.5% of your adjusted gross income. Benefits paid under these policies won't be taxed as income. The premiums for NTQ policies can't be deducted and there is no guarantee that the benefits will be tax-free. However, these policies exceed the federal requirements for when benefits can be paid, and people may qualify for benefits sooner than they would with a TQ policy.

Premiums are based on choices you make when you buy a policy. You choose 1) which type of policy you want to buy, 2) the amount of the daily benefit that will be paid, 3) the number of years you want the policy to pay benefits, 4) the number of days (if any) before the company begins paying benefits after you qualify, and 5) inflation protection. These five factors, combined with your age when you buy the policy, determine the premium you will pay. Premiums can range from a few hundred dollars a year, if you buy at 45 years of age, to several thousand dollars a year, if you buy at age 75. In addition, each

company calculates their costs differently and there can be substantial differences between premiums for similar benefits from each company. Premiums for the daily benefit are usually calculated for each \$10 of the daily benefit you choose. For instance, if a company charges \$95 for each \$10 of daily benefit at your current age, the premium for a daily benefit of \$100 will cost \$950 a year.

Premiums for these policies can increase, and some have in past years. When you buy a LTCI policy, the agent must give you a Personal Worksheet that will tell you if that company has had a rate increase anywhere in the country since 1990. It will also tell you how much the premiums increased, and in which states. You can also look on the website for the California Department of Insurance, www.insurance.ca.gov, to see rate increases for every company that sells LTCI in California. HICAP offices have a copy of this information if you don't have access to the Internet. To find your local HICAP office, call 1-800-434-0222.

Medical Underwriting or Health Screening is the process companies use to determine if they will sell you a policy. People who already need long term care are not insurable. For everyone else it depends on how the company does its medical underwriting. Some will review the medical records of each applicant, others will do so only when someone is over a certain age when they apply for the policy, and some will do a phone interview or face-to-face interview when people are over a certain age. Still others will rely on your answers to the health questions on the application when you apply for the policy. Some companies are very strict with their medical underwriting; others are more liberal and will sell a policy to some people who have certain acceptable health conditions, but they may charge a much higher premium. Every company will ask you to sign a medical records release. Some companies will get copies of your medical records before they decide whether to issue you a policy, others will wait to get those records until you file a claim.

Things to Consider When Buying LTCI

Benefit Triggers

Before benefits will be paid, certain conditions must be met. A benefit trigger is usually met by measuring a person's ability to do one or more Activities of Daily Living (ADLs), such as bathing or dressing, or by testing their cognitive abilities. When a person can't do a specific number of ADLs, or has a cognitive impairment such as Alzheimer's Disease that requires assistance or supervision, benefits may be payable. In California companies must pay benefits for nursing home care, Assisted Living or home care when a person can't do two of the ADLs listed in the policy, or when a person has a cognitive impairment like Alzheimer's. TQ policies must use a list of six ADLs: bathing, dressing, transferring, eating, toileting, and continence. NTQ policies can use a list of seven ADLs, adding ambulating (walking) to the list and a separate set of definitions.

Assistance or Supervision

If a person needs help with an ADL, or can't do it at all, they may need someone to do it for them, or to stand by to prevent an injury (caused by a fall for example). If a person has a cognitive impairment, they may need supervision to remind them when and how to do these things. Assistance must be described in the policy as stand-by or hands-on assistance (in policies sold after 1998).

Waiting periods, also called "Elimination Period" or "Deductible Period". A waiting period works like a deductible. It is a specific period of time before a policy will begin paying benefits, after someone is eligible to receive them. Some people choose not to have a waiting period and these policies pay from the first day they are eligible for benefits. Other people decide to pay for the first 30, 60, or 90 days of their care. Their policies begin paying benefits after the waiting period. Some companies count only the days you actually receive paid care against the waiting period; others count every day from the first day you were eligible for care, regardless of whether you received care. Some companies require you to meet this waiting period once in your lifetime; others require you to meet it each time you qualify for benefits.

Waiting periods can be expensive. If you select a policy with a 30 day waiting period/elimination period, for example, you should be prepared to pay out of pocket about \$4000 to \$8000 per month for nursing home care, before the LTC policy begins paying benefits. The cost for nursing home care increases each year with inflation. If costs increased annually at 5 percent compounded, the cost of a waiting period could double in about fourteen years. You should be sure you that can afford the cost of the waiting period you choose now and in the future. If the company you choose only counts each day you receive care toward the waiting period, the number of days before the policy actually begins paying benefits could be much longer than you expect. For instance, if you received home care for three days each week it could take ten weeks, or 75 days before you meet a 30-day waiting period.

90 Day Certification

TQ policies require certification by a health care professional that your expected need for long term care services will be at least 90 days. This is not a waiting period before benefits can begin, but rather, verification that the need for care isn't short-term. If you didn't need care for the full 90 days it wouldn't affect any benefits that were due you during that same time period.

Daily Benefit Amount

This is the maximum amount the policy will pay for each day of care. Some policies pay the daily benefit when you are in a nursing home, but they pay a percentage of that amount for all other kinds of care. For instance, if the maximum daily benefit amount for nursing home care is \$100, the daily benefit for Assisted Living in California must be 70% of that amount, and no less than 50% for home care. Some companies will pay up to 100% of the daily benefit in each place covered by the policy, or the daily cost, whichever is less. Some also pay the home care benefit on a weekly or monthly basis so that care can be planned, scheduled, and paid for more efficiently and economically.

Duration of Benefits

Policies are typically sold to cover 12 months or more of care. You can buy a policy that only pays benefits for one year, or one that pays for 2, 3, or 5 years, OR one that pays benefits for as long as you live. The premium is usually calculated in increments of twelve months, and the

cost is based on the benefit package for each year of coverage you buy. Two years of benefits costs more than one year, and five years of benefits costs more than three years, while benefits that last as long as you need care can be very expensive. Most people choose something less, based on the amount of premium they can afford.

Maximum Policy Benefits

This is the total dollar amount the policy will pay out once you trigger benefits, regardless of how you collect those benefits. In California, companies must use a “pool of money” method of paying benefits. For instance, if you bought a policy that paid \$100 a day for three years, your maximum policy benefits would be \$109,500. If you used your benefits at the full benefit amount every day, your total benefits would last three years. If however your care costs less, or you only used the home care benefit at \$50 a day, your policy could last much longer than three years.

Inflation Protection

When you buy an individual LTCI policy in California, companies and agents have to offer you inflation protection and show you the cost of inflation over time. If you turn down this offer, you must sign a rejection notice acknowledging that you understand that your benefit will not keep up with the cost of long term care in the future. You should carefully weigh your ability to pay the difference between the daily benefit that you choose and the cost of care many years later. Benefits without this protection will steadily erode over time. Companies are required to offer you no less than two ways to protect your original investment. In the first method, inflation protection is built into the policy at 5% compounded. Understandably, the premium will be higher than it would be without this protection. The second method offers you the right to add inflation protection at periodic intervals. You can't be turned down for this protection, but your premium will go up each time you choose this option, and you may find you can no longer afford it as you get older. If you do not take advantage of this option each time it is offered, you could eventually lose the right to choose it.

Example: A \$100 daily benefit with 5% compounded inflation protection will double to \$200 a day in 14 years. While that same benefit without

this protection will be worth only half of its original value, you will have to pay the difference between that benefit and the cost of care.

Assisted Living benefits must be paid in any facility licensed as a Residential Care Facility for the Elderly (RCFE). This includes small neighborhood homes, often called Board and Care facilities, as well as retirement homes, and specialized community facilities for Alzheimer's patients. In addition, in policies sold in California after 1999, the daily benefit must be equal to at least 70% of the policy benefit for nursing home care, and the benefit trigger can be no greater than 2 ADLs or cognitive impairment.

Nursing Home benefits must include the cost of all long term care services you receive, not just the charge for room and board, up to the maximum daily benefit amount of the policy. The benefit trigger can be no greater than 2 ADLs or cognitive impairment.

Home Care benefits must include services for skilled care, personal care and homemaker services, Adult Day Care, Respite care, and Hospice care, and the benefit trigger can be no greater than 2 ADLs or cognitive impairment.

Benefit Changes

Companies must allow an insured person to reduce their benefits in return for a lower premium, increase their benefits at their current age with new underwriting, or buy new benefits at their current age with new underwriting when the company develops new products or new benefits.

Agent Requirements

Agents are required to give consumers certain information about long term care. They must give you a buyer's guide entitled Taking Care of Tomorrow, a completed Personal Worksheet, specific information about the local HICAP office, and a replacement notice if you are replacing an existing LTCI policy. They must also give you an Outline of Coverage that summarizes the benefits and conditions of the policy.

The **Personal Worksheet** is a document that, in addition to revealing any rate increases by the company, asks questions about your planning for long term care. Some of the questions ask for income and asset information so the company

can be certain that you are an appropriate purchaser of this type of insurance.

If you are not comfortable providing that information to an agent, you can refuse to fill out that part of the worksheet. The company will contact you later to make sure that it was your choice to refuse this information. The agent should leave you one copy of the worksheet, send one copy to the company, and retain one copy in their office files as proof that you were given the documents required by state law.

Dealing with Agents

Most agents are professional, well-trained people who will not pressure you to make a decision before you are ready. However, you should have some idea of what you want and a realistic idea of what you can afford before you buy this type of insurance. There are many agents selling LTCI and it's important that you deal with someone you can trust. If you are not comfortable with a particular agent you should find someone else. You will need to contact your agent later if you want to change any of your benefits or if you have a claim. Your agent should be able to answer questions you have about your policy years later if needed, and be someone you trust and can easily reach. Look for an agent who has up to date training on LTCI, is in an established business, and who will take the time to answer all your questions. This type of insurance is an investment that you should plan on paying for over the rest of your lifetime and it should be purchased from a solid company with experience insuring this kind of care.

More information can be found in the "Long-Term Care Insurance-Consumer Guide," published by California Department of Insurance. It is available through the Consumer Hotline (1-800-927-4357).

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The Health Insurance Counseling and Advocacy Program (HICAP) provides free, objective information and counseling on Medicare and other related topics. You can call 1-800-434-0222 with your questions or to make an appointment at the HICAP office nearest you. To find the HICAP office in your area, visit

<http://www.calmedicare.org/counseling/>